

REPORT OF EXAMINATION
OF THE
THE DOCTORS' LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2005

Participating State
and Zone:

California

Filed June 27, 2007

TABLE OF CONTENTS

| | <u>PAGE</u> |
|-----------------------------------------------------------------------------------------------------|-------------|
| SCOPE OF EXAMINATION | 1 |
| MANAGEMENT AND CONTROL: | 2 |
| Intercompany Agreements..... | 3 |
| TERRITORY AND PLAN OF OPERATION..... | 4 |
| REINSURANCE:..... | 5 |
| Assumed..... | 5 |
| Ceded..... | 5 |
| FINANCIAL STATEMENTS: | 6 |
| Statement of Financial Condition as of December 31, 2005..... | 7 |
| Summary of Operations and Capital and Surplus Account for the Year Ended December 31, 2005 | 8 |
| Reconciliation of Capital and Surplus from December 31, 2002 through December 31, 2005 | 9 |
| COMMENTS ON FINANCIAL STATEMENT ITEMS: | 10 |
| Aggregate Reserve for Life Contracts and Liability for Deposit-Type Contracts..... | 10 |
| SUMMARY OF COMMENTS AND RECOMMENDATIONS: | 10 |
| Current Report of Examination..... | 10 |
| Previous Report of Examination | 10 |
| ACKNOWLEDGMENT | 11 |

San Francisco, California
May 30, 2007

Honorable Alfred W. Gross
Chairman, NAIC Financial
Condition (EX4) Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Kent Michie
Secretary, Zone IV-Western
Commissioner of Insurance
Department of Insurance, State of Utah
Salt Lake City, Utah

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

THE DOCTORS' LIFE INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 185 Greenwood Road, Napa, California 94558.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2005. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The present examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period,

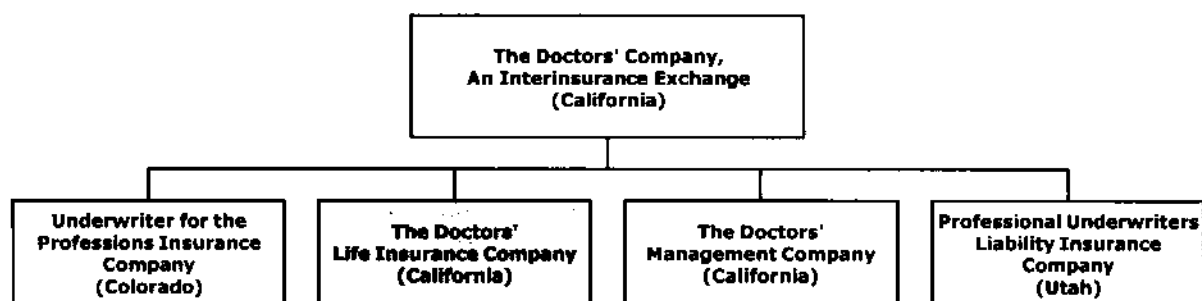
and an evaluation of assets and a determination of liabilities as of December 31, 2005, as deemed necessary under the circumstances.

The examination was conducted concurrently with the examination of the Company's parent, The Doctors' Company, an Interinsurance Exchange.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: company history; corporate records; fidelity bonds and other insurance; growth of company; business in force by states; mortality experience; employee welfare and pension plans; accounts and records; and sales and advertising.

MANAGEMENT AND CONTROL

The Company is wholly-owned by The Doctors' Company, an Interinsurance Exchange (TDC), and is a member of an insurance holding company system of which TDC is the ultimate controlling entity. Except for its officers, the Company has no employees. The day-to-day operation of the Company is managed by The Doctors' Management Company (TDMC) in accordance with a management services agreement. The following chart depicts the interrelationship of the companies within the holding company system (all ownership is 100%):



Management of the Company is vested in a board of directors. A listing of the members of the board and principal officers serving as of December 31, 2005 follows:

Board of Directors

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|---------------------------------------------------|------------------------------------------------------------------------------------------------------|
| Richard E. Anderson, M.D. Napa, California | Chairman of the Board The Doctors' Life Insurance Company |
| David M. Charles, M.D. Denver, Colorado | Physician |
| Mark Gorney, M.D. * Napa, California | Medical Director and Chairman of Risk Management Committee The Doctors' Life Insurance Company |
| Ann S. Lofsky, M.D. * Santa Monica, California | Physician |

Principal Officers

| <u>Name</u> | <u>Title</u> |
|------------------------|-------------------------|
| Richard E. Anderson | Chief Executive Officer |
| David B. Troxel, M.D. | Secretary |
| David G. Preimesberger | Treasurer |

*Retired from TDC subsequent to examination date. The two board members were replaced by the following individuals: Kenneth R. Chrisman, Executive VP, Wells Fargo and Charles R. Kossman, M.D., Physician. Additional board members added subsequent to examination date: J. Gallagher, M.D., Robert B. Sheppard, Insurance Executive, Retired and Randall K. Zeller, Chairman, Dapple Bloodstock.

Intercompany Agreements

Management Agreement: Under the terms of a Management Agreement between the Company and TDMC, TDMC provides management and administrative services to the Company. The agreement has been in force since September 16, 1996. Although, TDMC provided management and administrative services to the Company in accordance with the agreement during the period of this examination, the Company paid no administrative fees for the services, which is not in accordance with the contract. The unrecognized expenses were not considered material; therefore no

adjustment was made to the Company's balance sheet. It is recommended the Company comply with or amend the current management agreement.

Tax Allocation Agreement: The Company, its parent, The Doctors' Company, an Interinsurance Exchange (TDC), and its affiliates are parties to a Federal Income Tax Allocation Agreement. TDC files the consolidated federal tax return representing all affiliates. Allocation of tax liability is based upon separate return calculations with inter-company tax liabilities normally settled no later than 30 days after the month in which the tax payments have been made or after the filing of the consolidated return if any additional payments are due. The tax allocation agreement was effective December 1992. TDC submitted an amended agreement to the California Department of Insurance (CDI) for approval, effective December 13, 2006. The amended agreement, a joinder to the 1992 tax agreement, has since then been revised by TDC. The revised amendment is currently being reviewed by the CDI.

TERRITORY AND PLAN OF OPERATION

The Company specialized in marketing insurance products primarily to members of the medical profession. In 1985, the Company discontinued writing new business and is presently servicing the existing needs of its policyholders.

As of December 31, 2005, the Company was licensed to transact insurance business in the states of Arizona, California, Hawaii, Montana, Nevada, Texas, and Wyoming. It generated premiums of \$108,657 in California (89.6%), and \$12,636 in Nevada (10.4%). The Company's in-force policies are comprised of life policies, supplementary contracts and annuities. Presently, the Company has no plans to reactivate its marketing in the near term.

REINSURANCE

Assumed

No reinsurance was assumed during the examination period.

Ceded

The Company did not enter into or terminate any reinsurance agreements during the examination period. The maximum retention on any one life is \$100,000. The Company has reinsured 71% of its ordinary life insurance in-force. Approximately 10% of the reinsurance is ceded on a yearly renewable term basis to Swiss Re Life & Health America, Inc. and Transamerica Occidental Life Insurance Company. The remaining 90% is ceded under a yearly renewable term agreement to the following reinsurance pool:

Admitted:

| | |
|-----------------------------------|------------|
| Revious Reinsurance US | 40% |
| Scottish Re (United States), Inc. | 20% |
| Hannover Life Reassurance Company | <u>15%</u> |
| Subtotal – Admitted | <u>75%</u> |

Non-Admitted:

| | |
|---------------------------------------------|-------------|
| Converium Ruckversicherung (Deutschland) AG | 10% |
| Nouvelle Cie De Reassurance SA | 10% |
| Unione Italiana Di Riassicurazione | <u>5%</u> |
| Subtotal – Non-Admitted | <u>25%</u> |
| Total | <u>100%</u> |

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2005

Summary of Operations and Capital and Surplus Account for the Year Ended
December 31, 2005

Reconciliation of Capital and Surplus from December 31, 2002 through
December 31, 2005.

Statement of Financial Condition
as of December 31, 2005

| <u>Assets</u> | <u>Ledger and Nonledger Assets</u> | <u>Nonadmitted Assets</u> | <u>Net Admitted Assets</u> | <u>Notes</u> |
|------------------------------------------------|--------------------------------------------|-------------------------------|--------------------------------|--------------|
| Bonds | \$ 8,665,764 | \$ | \$ 8,665,766 | |
| Cash and short-term investments | 18,261,249 | | 18,261,249 | |
| Receivable for securities | 2,735 | | 2,735 | |
| Investment income due and accrued | 76,705 | | 76,705 | |
| Premiums and annuity consideration | | | | |
| Uncollected premiums and agents' balances | | | | |
| in course of collection | (7,178) | | (7,178) | |
| Federal income tax recoverable | 28,493 | | 28,493 | |
| Net deferred tax asset | <u>642,328</u> | <u>584,750</u> | <u>57,758</u> | |
| Total assets | <u>\$27,670,097</u> | <u>\$ 584,750</u> | <u>\$27,085,349</u> | |
| <u>Liabilities, Capital and Surplus</u> | | | | |
| Aggregate reserve for life contracts | | | \$ 6,992,436 | (1) |
| Liability for deposit-type contracts | | | 1,443,925 | (1) |
| Contract claims - Life | | | 25,000 | |
| Premiums and annuity consideration received | | | | |
| in advance | | | 6,297 | |
| Interest maintenance reserve | | | 1,247,853 | |
| Taxes, licenses and fees due or accrued | | | 7,771 | |
| Asset valuation reserve | | | 20,839 | |
| Reinsurance in unauthorized companies | | | 7,296 | |
| Payable to parent, subsidiaries and affiliates | | | <u>20,671</u> | |
| Total liabilities | | | 9,772,089 | |
| Common capital stock | | \$2,600,000 | | |
| Gross paid in and contributed surplus | | 8,000,000 | | |
| Unassigned funds (surplus) | | <u>6,713,260</u> | | |
| Capital and surplus | | | <u>17,313,260</u> | |
| Total liabilities, capital and surplus | | | <u>\$27,085,349</u> | |

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2005

Summary of Operations

| | | |
|--------------------------------------------------------------------------------|----------------|-------------------|
| Premiums and annuity considerations for life and accident and health contracts | \$ 65,213 | |
| Net investment income | 868,787 | |
| Amortization of interest maintenance reserve | <u>149,963</u> | |
| Total | | \$ 1,083,963 |
| Death benefit | \$ 100,414 | |
| Annuity benefits | 677,635 | |
| Surrender benefits | 471 | |
| Increase in aggregate reserves for life contracts | (1,032) | |
| General insurance expenses | 42,023 | |
| Insurance taxes, licenses and fees | 31,420 | |
| Aggregate write-ins for deductions | <u>91,280</u> | |
| Total | | <u>942,211</u> |
| Net gain from operations before federal income taxes | | 141,752 |
| Federal income taxes incurred | | (34,888) |
| Net realized capital loss | | <u>(19,835)</u> |
| Net income | | <u>\$ 156,806</u> |

Capital and Surplus Account

| | | |
|---------------------------------------------------------------|--------------|---------------------|
| Capital and surplus, December 31, 2004 | | \$17,151,305 |
| Net income | \$ 156,806 | |
| Change in net deferred income tax | (15,846) | |
| Change in nonadmitted assets | 13,875 | |
| Change in liability for reinsurance in unauthorized companies | (72) | |
| Change in asset valuation reserve | <u>7,192</u> | |
| Net change in capital and surplus for the year | | <u>161,955</u> |
| Capital and surplus, December 31, 2005 | | <u>\$17,313,260</u> |

Reconciliation of Capital and Surplus
from December 31, 2002 through December 31, 2005

| | | | |
|---------------------------------------------------------------|----------------------------|----------------------------|---------------------|
| Capital and surplus, December 31, 2002, per Examination | | | \$17,470,850 |
| | <u>Gain in Surplus</u> | <u>Loss in Surplus</u> | |
| Net income | \$ 345,846 | \$ | |
| Change in net deferred income tax | | 468,163 | |
| Change in nonadmitted assets | 422,612 | | |
| Change in liability for reinsurance in unauthorized companies | 6,343 | | |
| Change in reserve on account change in valuation basis | | 500,000 | |
| Change in asset valuation reserve | <u>35,772</u> | <u></u> | |
| Total gains and losses in surplus | <u>\$ 810,573</u> | <u>\$ 968,163</u> | |
| Decrease in capital and surplus | | | <u>(157,590)</u> |
| Capital and surplus, December 31, 2005, per Examination | | | <u>\$17,313,260</u> |

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Reserve for Life Contracts and Liability for Deposit-Type Contracts

The aggregate reserve for life contracts and the liability for deposit-type contracts were calculated by an actuary from the Company's independent actuarial consulting firm, L&E Actuaries & Consultants (L&E). An actuary from L&E also examined the calculations and indicated that the above liabilities were calculated based on assumptions and actuarial methods that conform to acceptable actuarial standards. Given that the examiners' tests (to the extent deemed necessary) of the underlying data used in the calculations of the liabilities indicated no material issues, L & E's calculations and opinions regarding the Company's aggregate reserve for life contracts and the liability for deposit-type contracts were accepted for the purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control: Intercompany Agreements (Page 3). It is recommended the Company comply with or amend the Management Agreement with The Doctors' Management Company.

Previous Report of Examination

No exam comments were made in the previous Report of Examination.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and the employees of The Doctors' Management Company during the course of this examination.

Respectfully submitted,

/s/

Sandra Bailey, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California